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SUBJECT: AFTER NARGIS, A BORDER TRADE BOOM IN THAILAND'S FAVOR

CHIANG MAI 00000096 001.2 OF 002

CLASSIFIED BY: Kevin Rosier, Econoff, , .
REASON: 1.4 (b), (d)

Summary

¶1. (C) Trade activity on the Thai-Burma border is bustling as demand for relief supplies remains high in Burma after cyclone Nargis. Thai exports to Burma through Mae Sot increased 75% last month compared to May 2007, and officials do not expect export volumes to drop to normal levels anytime soon. Besides post-Nargis demand for supplies, contract farming and revenue from remittances in Thailand are also helping to increase exports to Burma. Thai businesses see the recent boost as an opportunity to advance already existing plans to improve highway infrastructure along the East-West corridor from Thailand to Burma's Mawlamyine seaport. End Summary.

Post-Nargis, Thai Exports Soar

¶2. (SBU) In the aftermath of cyclone Nargis, Thai exports to Burma through the Mae Sot-Myawaddy border crossing have soared amid increased demand for construction materials in Burma. Thai Customs officials reported during a June 11-13 trip to Mae Sot by ConGen officials that May's exports through Mae Sot to Burma increased 75% compared to May 2007. The increased export volume is composed primarily of construction materials, especially tin sheets used as roofs. Export levels of these tin sheets were already artificially low due to a Burmese import ban. Customs officials told us that the Burmese have not been enforcing the ban since Nargis.

¶3. (U) Besides purchased goods, donated goods such as small tractors have expanded export levels through Mae Sot as well. The RTG declared Mae Sot the main transit point for donated goods because it is Thailand's closest border point to Rangoon at 400 kilometers. Moreover, NGOs operating in Mae Sot are buying large amounts of relief supplies from Bangkok producers and exporting them via Mae Sot to Rangoon.

¶4. (C) The average value of exports to Burma through Mae Sot is about \$31 million monthly or \$350 million yearly, including both official and unofficial trade; and average annual export growth is 30% in Mae Sot. The cyclone has changed the outlook for 2008, however. Expecting the recent surge in exports to be sustained throughout the year, Customs officials estimate that 2008's export values will reach about \$625 million by the end of 2008, an increase of 75% of the average annual level.

Explaining Export Growth Beyond Nargis

¶5. (U) While increased demand for construction supplies explains the boom in exports from Mae Sot in May, Customs officials said that there are other reasons for possible sustained export growth in the future. One reason is that officials expect the high prices of commodities to continue to rise, increasing the face value of exports.

¶6. (SBU) A second reason is that demand is booming in neighboring Karen State, where incomes are rising thanks to new cash crops such as corn and beans grown under Thai contract farming projects. Under the former Thaksin-led government, foreign investment regulations were relaxed to allow Thai investors to engage in contract farming in neighboring countries. The policy's effects are being felt in Karen State, where contract farming has become a popular cross-border investment. Thai officials expect that Karen incomes will continue to rise as farmers are now shifting to ethanol inputs such as sugar cane and tapioca as main crops.

¶7. (C) Finally, officials also attributed high Burmese demand for Thai exports to the remittances sent by Thailand-based Burmese labor. This expands purchasing power in the bordering states. One local Chamber of Commerce official (Tak Province) gave such credence to the influence of these remittances on bilateral trade that he believes the equal values of the estimated \$31 million in Thailand-generated monthly remittances to Burma (septel) and the \$31 million in monthly exports through Mae Sot are no coincidence.

¶8. (C) The Tak Chamber of Commerce echoed Customs officials' reports of high post-Nargis export levels; however, it cited a potential obstacle to businesses being able to fully benefit from the high demand. The Chamber reported that the Burmese government contacted it to request that more tin sheets be exported for reconstruction efforts. The Chamber said that

CHIANG MAI 00000096 002.2 OF 002

although Thailand is a major producer of these sheets, a current supply shortage caused by limits in production capacity will not allow it to honor Rangoon's request.

Imports Unchanged or Stagnant

¶9. (U) While Thai exports are reaping the benefits of high post-Nargis demand in Burma, Burmese imports have remained unchanged or have stagnated since May. Seafood imports, the second largest from Burma through Mae Sot, have declined since the cyclone destroyed much of the fishing sector. Other major import categories, including wooden and agricultural products, have remained at normal levels since most of these goods originate in the unaffected border states of Karen, Shan, and Mon.

Opportunity for Infrastructure Growth?

¶10. (C) Basking in unusually high export growth and noting the growing intimacy of the Thai and Burmese governments, Thai exporters are hoping that highway expansions in Burma can allow for even higher trade levels. Customs officials believe that now is a good time for the neighboring countries to advance plans to expand the highway that connects Myawaddy to the main seaport of Mawlamyine. The highway through Burma is the last leg of the East-West highway that links Da Nang, Vietnam to Moulmein, Burma. With the highway project's sponsor, the Asian Development Bank, unwilling to fund construction of the Burma portion, the former Thaksin-led government approved a \$65 million soft loan to the GOB to finance and build this final leg of the road.

¶11. (C) The Tak Chamber of Commerce reported that the first phase of this project, which is the first 18 kilometers from

Myawaddy to Thingannyinaung, is already completed. The site survey of the second phase, which plans for the construction of another 32 kilometers onward to Kawkareik, is complete; construction is pending negotiations between the RTG and GOB. The two sides are deadlocked on a difference of opinion: the RTG wants to expand and improve the already existing single-lane 32 kilometer dirt road; whereas the GOB wants to build an entirely new and longer route further south where no infrastructure currently exists.

Comment

¶12. (C) While no one in Mae Sot is rejoicing at the devastation caused by cyclone Nargis, it is hard to ignore how the storm caused this sudden boost in Thai exports to Burma. With economic activity thriving at the border, Thai businesses are inevitably looking to policymakers to expand trade even further, with contract farming and the highway project leading the way. However, amid domestic political turmoil in Thailand and an ever-uncooperative regime in Burma, prospects for man-made trade promotion on the border are dim.

¶13. (U) This cable was coordinated with Embassies Bangkok and Rangoon.
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